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TREASURY DEPARTMENT
BUREAU OF CUSTOMS
INVESTIGATIVE UNIT

TREASURY REPRESENTATIVE
CARE OF AMERICAN CONSUL

DEPARTMENT
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April 2, 1938
HONG KONG

Stuart J. Fuller, Esq.,
c/o American Consulate General,
Geneva.

Dear Fuller:-

I am enclosing herewith all the data I have to date
on opium and narcotic situation in North China and Manchukuo. Conditions
are such in the north that it is all but impossible to obtain any real
information on the subject.

Japanese military have conducted reign of terror against
White Russians and others in the North suspected of supplying the outside
world with information regarding the drug traffic. They call it "economic
espionage." Two of my best workers have been willfully and brutally
murdered. Your "Dr." Frank Koenig is accused by Tientsin British police
of supplying Japanese with names and information regarding anti-narcotic
workers. I must warn you against this man as it is believed he is working
for Japs in Europe and especially regarding activities in Geneva. But this
is another and gruesome story; details of which are being supplied to the
Treasury Department in Washington.

Wishing you the best of luck and with kind personal
regards, I am,

Faithfully,

M. R. Nicholson
M. R. NICHOLSON
U.S. Treasury Attache'

Copy to Bureau of Customs
Washington, D.C.
MRN/AJC

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Further re: "Manchoukuo" Opium Monopoly.

The Japanese have been very "touchy" on the subject of opium and narcotic conditions in "Manchoukuo" and other territories under their control, following the attack on them launched by the Opium Advisory Committee of the League of Nations last year. Since that time they have been strenuously trying to camouflage and cover up the increase in the opium and narcotic traffic and the number of addicts in the above controlled areas.

Recently Mr. Kei Miyakawa, believed to be one of the chief organizers of the "Manchoukuo Opium Monopoly Administration", published a "holier than thou" article in the "Manchurian Daily News", Nos. 7806 - 7816, February 6th to 16th inclusive, entitled "Opium and Dangerous Drugs in Manchoukuo" (copy attached).

Full data on this subject has been supplied to the Bureau in various reports submitted by this office, so that nothing new appears in Miyakawa's articles, except figures covering end of 1937 and beginning of 1938 and possibly some recent laws and regulations.

It is obvious that the article was published for the purpose of concealing the real figures; yet the author does not deny that the opium trade as well as

the revenue derived therefrom are increasing each year. However, he ingeniously explains that "the gradual increase ~~xxxxx~~ should not be misconstrued as it is the result of the strict and proper Government administration, which is checking more and more the illicit traffic". What he actually shows is that the "Government" is gradually overcoming the competition of independent trafficking. Such is the sole purpose of Monopoly suppression.

The author states "there were as may be seen by the above figures, large deficits in both 1933 and 1934 and it was not until 1935 that the revenue and expenditures were barely balanced". What the figures actually show is as follows:

	<u>Govt. Bot.</u>	<u>Price per liang</u>	<u>Govt. Sold</u>	<u>Price per liang</u>
1933	3,429,601	2.25	1,220,403	4.50 approx
1934	6,612,951	2.25	3,808,499	4.00 "
1935	7,601,254	2.02	7,780,606	3.63 "
1936	10,307,943	1.92	10,108,223	3.85 "
1937	13,500,000	2.20	12,300,000	3.90 "

or an average gross profit of over 80%.

During the five years in question the Govt. purchased 41,000,000 liang and

sold 35,000,000.

~~question: What became of the difference of approx 6,000,000 liang?~~

Hong Kong. April 3, 1938.

Re: Heroin Factory in Macao

Careful enquiries made in various quarters failed to confirm the existence of a heroin factory in Macao although it is rumoured that a certain group of Persians or Armenians planned to open such a factory. However, it is reported that they failed to get the necessary protection and postponed the plan.

The existence of any new factory could be easily traced by the local Government laboratory which, I was told, is analysing all new seizures and the appearance in the market of a new manufacture would be immediately noted.

Moreover, I was told that Hong Kong itself, as well as surrounding part of South China, do not require a large amount of heroin because the upper and middle classes are still smoking the traditional opium pipe

while the poorer classes use "red pills" which contain heroin but very little of this drug is used in their manufacture.

The number of heroin smokers (pure heroin placed in a cigarette) in South China is very small compared with number of such smokers in "Manchoukuo" and North China where this easy way of drug-using finds many victims daily.

Furthermore, I have been informed that heroin for South China use is usually brought here in small quantities from Japan, Manchuria and North China and that carriers are mostly crew members of various steamers.

Records of the Hong Kong authorities do not show any important seizures of heroin. "Red pills" seized are made in Hong Kong and vicinity and the "red pills" so seized have never been traced to Macao

Hong Kong, April 3, 1938.

Re: Narcotics in Peking-Tientsin Area

1/ General Situation:

Forced by revelations made by the League of Nations and by world wide publicity given narcotic traffic in the Japanese Concession in Tientsin, Japanese in June and July of 1937 started, or pretended to start, a "clean up" of the said Concession, where as is well known numerous factories, stores and retail shops existed in which narcotics were manufactured and sold openly under protection of Japanese authorities.

This "clean up", which was carried out to appease world opinion and military activities in the Peking-Tientsin area during July, August and September of 1937 naturally handicapped the work of narcotic manufacturers, dealers and retailers for a short time. As soon as the Japanese gained control over this area they again took narcotic manufacturers and traffickers under their protection and the traffic is now in full swing.

Our information is to the effect that the traditional opium pipe is gradually vanishing and that Chinese and foreign addicts alike are turning to the more dangerous habit of heroin smoking by the well to do and the use of "red pills" by the poorer classes. Japanese authorities are taking care that no Japanese subjects become addicts and when such are found they are immediately deported to Japan. On the other hand they are encouraging and often forcing the sale of deadly drugs to Chinese, foreigners and even Koreans.

2/ Tientsin:

According to official information just received there are at present two heroin factories in Tientsin. One of them, belonging to a Sino-Japanese syndicate called the Chen Syndicate, operates the same as heretofore in the Japanese Concession. This factory is the only one which the Japanese allow to operate in their Concession; all other factories were either forced to close by the Japs or were ordered to move out of their

Concession/

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Concession. A new factory was established recently in the outskirts of Tientsin just outside the ex-Russian Concession; the information being that this factory is operated by a Japanese and Korean whose name is reported to be Konoko but the information is not clear on this Korean. Further, it is reported, that a German chemist has been invited to work in the said factory, and that they are manufacturing, or preparing to manufacture, high grade heroin for EXPORT.

There are 15 to 20 small factories in Tientsin, mostly situated in Japanese Concession or what is known as Chinese City, manufacturing "Red pills".

Opium dens and various shops selling all kinds of narcotics, which heretofore operated only in the Japanese Concession, are at present scattered all around Tientsin with exception of the British, French and Italian Con-

cessions. It is difficult to say accurately how many of these shops and dens are operating but my Tientsin agent is fairly certain there are not less than 200 such establishments in this area.

3/ Peking:

There are no narcotic factories of any kind in Peking, but there are many opium dens and shops selling narcotics.

4/ Fengtai:

There is a huge narcotic factory in Fengtai which is under direct protection of the Japanese Military. It is reported that all opium seized by the Japanese Army in various places of North China is stored in the said factory or turned into base or heroin. IT IS CLAIMED THAT THIS FACTORY IS THE FOUNDATION OF THE FUTURE "NORTH CHINA OPIUM MONOPOLY ADMINISTRATION", WHICH WILL OPERATE UNDER THE GUIDANCE AND PROTECTION OF THE "MANCHOUKHO OPIUM MONOPOLY ADMINISTRATION". As Fengtai contains a large Japanese garrison no opium dens or narcotic shops are allowed there, with exception of/

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of one, which operates under the direct supervision of the Japanese Consulate and may be patronized only by REGISTERED Chinese addicts. This indicates that this plant is probably the nucleus of a future opium monopoly in North China.

b/ Other towns:

There is no doubt in the mind of investigators that heroin, "base" and "red pills" factories exist in other places in North China but owing to the present political and military situation in this area it is very difficult to get detailed information.

However, the following (so far unconfirmed) reports were received during December of 1937 and January of 1938:

- a/ That there are at least TWO heroin factories in Tongshan;
- b/ That there are at least SIX narcotic factories in Tungchow;
- c/ That there is ONE factory operating or about to operate in Kalien.